Pakistan Cements

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Cements

Cement sector profitability to remain robust

Higher retention prices offset the impact of higher cost pressures

AFS cement universe is expected to post a profit of PKR27.1bn this quarter, compared to profit of PKR21.4bn SQLY, up 27% YoY. Major incresase in YoY profitability is due to higher earnings of DGKC and LUCK. Profitability remained robust in the outgoing quarter as manufacturers raised output prices to counter the impact of input cost pressures, which also proved margin accretive for some companies. CHCC / DGKC / FCCL / KOHC / LUCK / MLCF / PIOC are expected to post earnings of PKR 7.78 / 2.14 / 1.13 / 11.73 / 56.15 / 1.75 / 5.53 per share respectively. Lastly, we don't expect any company to pay dividend this quarter.

CHCC: CHCC is expected to report earnings of PKR1.51bn (EPS: PKR7.78) in 2QFY24 as against earnings of PKR1.53bn (EPS: PKR7.88) last quarter. This QoQ decrease in earnings is largely due to higher gas tariff where captive gas rate increased from PKR1200/mmbtu in October'23 to PKR2500/mmbtu in November'23. Net sales are expected to improve 2% QoQ to PKR10.3bn. This is primarily due to higher retention prices despite lower export offtake. Gross margin is expected to decline to 29% this quarter. Financial charges are expected to decrease 14% QoQ to PKR0.37bn due to lower debt level. Tax rate will also increase 2ppts sequentially to 35% this quarter due to higher earnings contribution from domestic business this quarter. Moreover, we don't expect any dividend payout this quarter.

DGKC: We expect DGKC to report a profit of PKR0.94bn (EPS: PKR2.14/sh) in 2QFY24 compared to profit of PKR0.66bn (EPS: PKR1.51/sh) last quarter due to higher retention prices and lower finance cost. Local despatches remained stable QoQ while export despatches increased by 89%. Consequently, net sales are expected to increase 11% QoQ to PKR18.4bn. Gross profit is also likely to remain at PKR3.1bn. Gross margin is declining sequentially by 2ppts due to higher reliance on expensive Afghan coal in Northern plants in the outgoing quarter. Finance cost is likely to decrease 19% QoQ to PKR1.69bn due to lower debt levels. Dividend income from MCB, NML and NCL is expected to help keep other income at PKR1.05bn, up 27%/43% QoQ/YoY. Lastly, no dividend is expected for the outgoing quarter from the company.

FCCL: We expect FCCL to report earnings of PKR2.76bn (EPS: PKR1.13) in 2QFY24, up 6% QoQ. This sequential increase in earnings is due to higher retention prices exceeding the cost pressures bore by the company. Moreover, company also relied on cheap inventory of Afghan coal and low priced local coal. Net sales are expected at PKR20.2bn, up 6% YoY. On sequential basis, net sales remain constant despite lower offtake. Sequential gross profit margin is also likely to improve 4ppts

Earnings

EPS (PKR/sh)	2QFY24E	1QFY24	QoQ	2QFY23	YoY
CHCC	7.78	7.88	-1%	8.00	-3%
DGKC	2.14	1.51	42%	1.24	72%
FCCL	1.13	1.07	6%	1.13	0%
KOHC	11.73	11.38	3%	9.98	18%
LUCK*	56.15	60.43	-7%	35.71	57%
MLCF*	1.75	1.51	16%	2.73	-36%
PIOC	5.53	4.10	35%	5.17	7%

Source: Company Accounts, Alfalah CLSA Research * Consolidated to 35% this quarter due to lower coal cost and high retention. Finance cost is expected to increase by 26% QoQ due to finance cost related to new line. Lastly, no dividend is expected this quarter.

KOHC: KOHC is expected to report earnings of PKR2.29bn (EPS: PKR11.73) in 2QFY24 up 3%/18% QoQ/YoY. Domestic/Export despatches are expected to decrease by 10%/21% QoQ respectively. Consequently, net sales are likely to decrease to PKR10.3bn, down 7% QoQ. Gross margin will likely improve to 34% in the outgoing quarter. Other income is expected at PKR0.82bn, up 88% YoY due to higher return from financial assets. Finance cost will decline marginally to PKR0.17bn. Furthermore, we don't expect the company to pay any cash dividend this quarter.

LUCK: We expect LUCK's 2QFY24 earnings to be down/up 3%/64% QoQ/YoY to PKR18.7bn with profitability attributable to LUCK being PKR16.4bn - (EPS: PKR56.15, restated on new number of shares). On standalone basis, LUCK is expected to report earnings of PKR5.56bn (EPS: PKR18.98) in 2QFY24 down 20% QoQ. This decline in sequential profitability is mainly due to no dividend flow from chemical subsidiary this quarter. For core cement operations, gross margins are expected to remain stable QoQ at 37%. However, distribution cost is likely to increase to PKR2.1bn due to higher freight charges resulting from axle load implementation. On consolidated financials, gross profit is likely at PKR30.1bn. Other income inclusive of contribution from foreign operations is expected at PKR9.7bn up 137% YoY due to depreciation of PKR and technical fee. Moreover, we don't expect any dividend from LUCK this quarter.

MLCF: We expect MLCF's 2QFY24 PAT to increase 16% sequentially to PKR 1.88bn (EPS: PKR1.75/sh). However, on YoY basis earnings are likely to fall 36% due to higher finance cost, distribution expense and tax rate. Local despatches are expected to increase 5% QoQ to 1.02MT. Net sales are expected to increase 7% QoQ to PKR17.9bn. Gross profit margin is likely to increase to 32% in the outgoing quarter with gross profit of PKR5.8bn. Distribution and admin expenses are likely to increase to 1.7bn. PKR1.1bn tax is expected on pre-tax profitability of PKR3.0bn. Furthermore, we don't expect MLCF to pay dividend due to capital injection requirements of hospital venture.

PIOC: PIOC earnings are likely to improve 35%/7% QoQ/YoY to PKR1.18bn (EPS: PKR5.53/sh). QoQ increase in profitability is due to higher despatches, up 11% QoQ whereas YoY increase in profitability is due to higher retention prices, up 18% YoY. Net sales are likely to increase 16% QoQ to PKR10.2bn. Gross margin is expected at improve by 2ppts sequentially to 32% in outgoing quarter. Finance cost is expected at PKR0.87bn, down 9% QoQ. Lastly, due to short term debt repayment considerations, we don't expect the company to pay any dividend this quarter.

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